

B-0022  
103014879-51

OIL AND GAS LEASE

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

STATE OF TEXAS

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§

COUNTY OF TARRANT

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This Oil and Gas Lease is entered into this 12<sup>th</sup> day of June, 2008 by and between Robert Kehr ("Lessor"), whose address is 4417 Hawkhurst Dr. Plano, TX 75024, and HOLLIS R. SULLIVAN, INC. ("Lessee"), whose address is P.O. Box 9289, Wichita Falls, Texas 76308.

1. FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, and subject to the terms and provisions contained herein, Lessor does hereby LEASE exclusively unto Lessee the land described below herein referred to as the "Leased Premises" for the purposes of exploring and drilling for, producing, storing, treating, transporting and marketing oil and gas and all substances produced therewith, conferring all rights and easements reasonably necessary or useful for Lessee's operations hereunder. The Leased Premises is described as follows:

**Being 69.0 acres of land, more or less, in the James McDonald Survey, A-997, Tarrant County, Texas, and being further described in that certain Warranty Deed dated April 10, 1989, from Jesse Theis to James H. Knapp and Mildred Knapp, said deed recorded a Volume 9690, Page 133, Official Public Records, Tarrant County, Texas.**

2. This is a Paid Up Lease. Subject to the other provisions contained herein, this Lease shall remain in force for a term of Two (2) years from the date shown above, hereafter called the "Primary Term" and as long thereafter as oil or gas is produced from the Leased Premises or operations are conducted thereon as herein provided.

3. As royalty, Lessee covenants and agrees: (a) to deliver to the credit of Lessor, in the pipeline to which Lessee may connect its wells or in the absence of pipeline connection, into Lessee's storage facilities the equal to twenty five percent (25%) part of all oil produced and saved by Lessee from the Leased Premises, Lessor's interest to bear the same percent of the costs of treating oil to render it marketable; (b) to pay Lessor on gas and casinghead gas produced from the Leased Premises (1) when sold by Lessee, twenty five percent (25%) of the amount realized by Lessee, computed at the mouth of the well, or (2) when used by Lessee off of the Leased Premises or in the manufacture of gasoline or other products, the market value, at the mouth of well of the same percent of such gas and casinghead gas. The royalties provided in this Lease shall be determined and delivered to Lessor free of any monetary out of pocket costs of development, production, compression, processing, treating, gathering, transportation, delivery, marketing, or other post-production costs incurred by Lessee beyond the wellhead to the point of delivery to the gas gatherer, transporter or purchaser, whichever occurs first, excepting however severance taxes applicable to Lessor's share of production that are paid by Lessee. This paragraph is not surplusage, but shall govern over all other royalty provisions of this Lease.

4. Notwithstanding any other provision of this Lease to the contrary, this Lease will cover only oil, gas and associated hydrocarbons and shall not cover any other substances or minerals.

5. Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all minerals or horizons, so as to establish units containing not more than 80 surface acres, plus 10% acreage tolerance; provided, however, units may be established as to any one or more horizons, or existing units may be enlarged as to any one or more horizons, so as to contain not more than 320 surface acres plus 10% acreage tolerance, if limited to one or more of the following: (1) gas, other than casinghead gas, (2) liquid hydrocarbons (condensate) which are not liquids in the subsurface reservoir, (3) minerals produced from wells classified as gas wells by the conservation agency having jurisdiction. If larger units than any of those herein permitted, either at the time established, or after enlargement, are permitted or allowed under any governmental rule or order, for the drilling or operation of a well at a regular location, or for obtaining maximum allowable from any well to be drilled, drilling, or already drilled any such unit may be established or enlarged to conform to the size permitted or allowed by such governmental order or rule. Lessee shall exercise said option as to each desired unit by executing an instrument identifying such unit and filing it for record in the public office in which this lease is recorded. Each of said options may be exercised by lessee at any time and from time to time while this lease is in force, and whether before or after production has been established either on said land, or on the portion of said land included in the unit, or on other land unitized therewith. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit, which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered, for all purposes, except the payment of royalty, operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each such unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land (or in each such separate tract) covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The formation of any unit hereunder which includes land not covered by this lease shall not have the effect of exchanging or transferring any interest under this lease (including, without limitation, any shut-in royalty which may become payable under this lease) between parties owning interests in land covered by this lease and parties owning interests in land not covered by this lease. Neither shall it impair the right of lessee to release, except that lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph, a unit once established hereunder shall remain in force so long as any lease subject thereto shall

remain in force. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interests as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but lessee shall nevertheless have the right to pool or unitize as provided in this paragraph, with consequent allocation of production as herein provided. As used in this paragraph, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

6. If at any time there is a well on the Leased Premises capable of producing gas, but the well has stopped being produced for a lack of a market or if the well is not completed due to a lack of pipeline, water, completion equipment or other good cause and this Lease is not being continued in force by some other provision hereof, then it shall nevertheless continue in force for a period of ninety (90) days from the date such well is shut-in or the date this Lease ceases to be continued in force by some other provision hereof, whichever is the later date, and prior to the expiration of such ninety (90) day period and annually thereafter, Lessee may pay or tender to Lessor an advance royalty called "Shut-In Gas Royalty" in an amount equal to \$50.00 per acre for the acreage then held under this Lease by such well and so long as such payments or tenders are so made this Lease shall continue in force and effect and it shall be considered that gas is being produced from the Leased Premises within the meaning of Paragraph 2 of this Lease.

7. If at the expiration of the Primary Term oil or gas is not being produced from the Leased Premises or lands pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon or shall have completed a well, either as a producer or a dry hole, within One-hundred twenty (120) days prior to the end of the Primary Term, this Lease shall remain in force so long as operations are continued in good faith and with reasonable diligence and not more than one-hundred eighty (180) days shall elapse between the drilling, completion or abandonment of a well and the commencement of operations to drill, rework or began completion of a well and, if such operations result in the production of oil or gas, so long thereafter as oil and gas is produced from the Leased Premises.

8. If oil or gas is produced from the Leased Premises or lands pooled therewith and production thereof should cease for any reason after the expiration of the Primary Term, Lessee shall have the right at any time within One-hundred twenty (120) days from the date of cessation of production to commence reworking or additional drilling operations in an effort to resume production, in which event this Lease shall remain in force so long as such operations are conducted in good faith and with reasonable diligence with no cessation of operations of more than One-hundred twenty (120) consecutive days and if such operations result in the production of oil or gas, so long thereafter as oil or gas is produced from the Leased Premises or lands pooled therewith.

9. The rights of either party hereunder may be assigned, in whole or in part, and the provisions hereof shall extend to their heirs, personal representatives, successors, and assigns; however, no change in the ownership of the land, rentals or royalty or the division thereof however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership or the division of the land or royalties shall be binding upon the Lessee for any purpose until thirty (30) days after Lessee shall have been furnished the instrument or instruments or recorded copies thereof resulting in such change.

10. Lessor agrees that Lessee shall have the right at any time to pay or reduce for Lessor either before or after maturity any mortgage, taxes or other liens or interests and other charges against the Leased Premises not subordinated to this Lease and to be subordinated to the rights of the holder thereof and to deduct the amounts so paid from royalties or other amounts due or which may become due to Lessor under this Lease. If Lessor owns less interest in the mineral estate in the Leased Premises then the entire and undivided fee simple estate, or no interest therein, then the lease bonus, royalties and other payments herein provided shall be paid to Lessor only in the proportion which Lessor's interest, if any, bears to the whole and undivided fee simple estate.

11. All Lessee's operations on the Leased Premises will be subject to and will be conducted in compliance with all federal, state, county, city and other laws, rules, ordinances, regulations and requirements. Lessee will assume all costs of insuring that its operations comply with all applicable laws. This Lease shall not be terminated in whole or in part, nor Lessee held liable for damages for failure to comply with the terms herein set forth, if compliance is prevented by or such failure is a result of any law, order, rule or regulation of applicable federal, state, county or other governmental authority or deed restriction and if not otherwise being maintained herein, the Primary Term hereof shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause and this Lease may be extended thereafter by operations and/or production as provided herein as if such delay had not occurred.

12. Whether or not this Lease is executed by all parties named herein as Lessor, this Lease shall be binding upon and inure to the benefit of all parties who execute it (whether or not named herein) and all parties from whom each Lessor has authority to execute this Lease.

13. **LESSEE AGREES TO INDEMNIFY AND HOLD LESSOR HARMLESS AGAINST ANY AND ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION UPON THE PART OF THIRD PERSONS FOR DAMAGES WHICH MIGHT ARISE OUT OF LESSEE'S OPERATIONS HEREUNDER BY LESSEE, ITS SUCCESSORS, OR ASSIGNS, EMPLOYEES, AGENTS, CONTRACTORS OR SUBCONTRACTORS, WHETHER SUCH INJURY OR DAMAGE RESULTS FROM NEGLIGENCE, STRICT LIABILITY, OR STATUTORY LIABILITY OF SUCH PARTIES OR OTHERWISE.**

**LESSEE WILL INDEMNIFY, HOLD HARMLESS, AND DEFEND LESSOR AGAINST ANY CLAIM, DEMAND, COST, LIABILITY, LOSS OR DAMAGE SUFFERED BY LESSOR ARISING OUT OF THE FOLLOWING ACTIVITIES CONDUCTED BY LESSEE, OR THOSE HAVING A CONTRACTUAL RELATIONSHIP WITH LESSEE, ON OR AROUND THE LEASED LAND.**

**ANY ACTIVITY EXPRESSLY OR IMPLIEDLY AUTHORIZED OR REQUIRED BY THIS LEASE.**

**PLUGGING AND ABANDONMENT OR PRODUCING WELLS, NON-PRODUCING WELLS, EXISTING WELLBORES, OR PREVIOUSLY PLUGGED WELLBORES.**

**MANAGEMENT, USE, AND DISPOSAL OF PRODUCED WATER AND WASTES OR SUBSTANCES ASSOCIATED WITH LESSEE'S ACTIVITIES.**

THE GENERATION, PROCESSING, HANDLING, TRANSPORTATION, STORAGE, TREATMENT, RECYCLING, MARKETING, USE, DISPOSAL, RELEASE OR THREATENED RELEASE, OF OIL, NATURAL GAS, NATURAL GAS LIQUIDS, ALL OTHER PETROLEUM SUBSTANCES, ANY WASTE MATERIAL, OR ANY "HAZARDOUS SUBSTANCE" OR "POLLUTANT OR CONTAMINANT" AS THOSE TERMS ARE DEFINED BY THE COMPREHENSIVE ENVIRONMENTAL RESPONSE COMPENSATION AND LIABILITY ACT (CERCLA) AT CERCLA §§ 101(14) AND THE 101(330, 42 U.S.C. §§ 9601 (14) AND 9601(33) (1988).

LESSEE'S INDEMNITY ALSO INCLUDES ANY ENVIRONMENTAL PROBLEM ASSOCIATED WITH OIL AND GAS EXPLORATION, DRILLING, DEVELOPMENT, PRODUCTION, TREATING, STORAGE, TRANSPORTATION, MARKETING, PROCESSING, ABANDONMENT, AND RELATED ACTIVITIES AT ANY SITE EXISTING ON THE LEASED LAND AS OF THE EFFECTIVE DATE OF THIS LEASE. LESSEE'S OBLIGATIONS CREATED BY THIS SECTION ARE CONTINUING OBLIGATIONS WHICH WILL CONTINUE IN EFFECT, AND BE ENFORCEABLE BY LESSOR, EVEN AFTER THE LEASE TERMINATES OR OTHERWISE CEASES TO BURDEN THE LEASED LAND.

14. No waiver by a party hereto of any breach of a term, condition or covenant of this Lease will be deemed to be a waiver of any other breach of the same or any other term, condition or covenant contained herein.

15. In the event any provision of this Lease is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity shall not affect any other provision thereof and this Lease shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

16. In the event of any legal action or proceeding between the parties seeking to enforce the terms of this Lease, the prevailing party in such action shall be entitled to recover, in addition to all remedies available to it at law, all of its costs and expenses in connection therewith, including attorney's fees and costs.

17. This Lease contains the entire agreement of the parties regarding the subject matter hereof and supercedes any and all prior agreements, arrangements or understandings between the parties regarding such subject matter. This Lease cannot be changed orally and may be amended only by an instrument in writing executed by the parties.

18. This Lease may be executed in one or more executed and acknowledged counterparts or ratifications hereof each of which shall be deemed to be acceptable and all of which together shall constitute one and the same document.

19. Any notice required or permitted to be given hereunder must be in writing and must be sent to the parties via personal delivery or certified mail only at their addresses set forth in this Lease or at another address upon prior written notice of the same.

20. At the end of the primary term hereof as same may be extended by any savings clause of this lease, this lease will automatically terminate as to all depths covered hereby lying 100 feet below the base of the deepest formation being produced under this Lease and as to all land covered by this Lease not then included in a producing unit.

21. Notwithstanding anything to the contrary contained above, Lessor hereby grants to Hollis R. Sullivan, Inc., any other third party and its agent, TimeSlice Technology, Inc., permission, to conduct seismic operations or utilize existing data collected for exclusive use or for an undershoot by other third parties to image the sub-surface of the leased premises, including the right to lay receiver lines and / or sources on the leased premises.

22. In the event a portion or portions of the land herein leased is pooled or unitized with other land so as to form a pooled unit or units, operations on, completion of a well upon, or production from such unit or units will not maintain this lease in force as to the land not included in such unit or units. The lease may be maintained in force as to any land covered hereby and not included in such unit or units in any manner provided for herein; ~~including a proportionate delay rental or option to extend payments computed in the proportion that the leased acre outside of the unit or units bears to the total acreage contained in the lease.~~ In the event at the expiration of the primary term all of the leased acreage described above is not included in a drilled unit or any extension thereto, a penalty of \$2,500 per net mineral acre shall be paid to Lessor, and that acreage shall be released. *RLK*

23. In the event any gas is processed for the extraction of liquefiable hydrocarbons or other marketable substances, by or for Lessee or Lessee receives any consideration for allowing the gas to be processed, the value of the extracted products and the remaining residue gas attributable thereto shall be considered the gross value of the gas sold for the calculation of royalties due; provided however, for royalty calculations, gross value shall not be less than the value of the gas if such gas had not been processed. Lessee shall also refer to any subsidiary or affiliate of Lessee

24. In selling any gas produced from the leased premises, or any lands with which the leased premises may be unitized, the Lessee shall exercise good faith and use due diligence and prudence to market such gas at the best price and upon the most favorable terms that may be obtainable by Lessee at the time or times such gas is contracted for sale, but in no event less than the price obtained by the operator of the well, or the operator's subsidiary, or any of its affiliates.

25. Lessee agrees to use diligence to prevent the underground or above ground waste of oil or gas and to avoid the physical waste of gas produced from the leased premises.

27. As part of the consideration for granting this lease, Lessor reserves a lien on the interest conveyed as security payment of royalties due hereunder. Lessee stipulates and agrees that this lien shall continue in effect during the term of the lease and may be enforced and foreclosed by Lessor upon failure by lessee to pay royalties within ninety (90) days after written notice from Lessor to Lessee that royalty payments due under the lease have not been paid.

28. Lessee shall give Lessor written notice within sixty (60) days after cessation of production.

29. Notwithstanding anything to the contrary herein, it is understood and agreed that this lease may not be maintained in force by payment of shut-in royalty on a well not capable of producing in commercial quantities or any cumulative

periods of greater than forty eight (48) months after the expiration of the primary term hereof.

30. Lessor shall have the right, at Lessor's sole risk and expense, to monitor the re-entry, drilling and production of oil and gas from the leased premises, including without limitation the right to gauge tanks, to inspect gas meters, and to witness meter tests and to install separate meter with which to monitor gas sales.

Lessor agrees not to disclose well production and test information to any person other than Lessor's counsel, petroleum engineer, accountant, and support staff without the prior written consent of Lessee.

31. Lessee agrees to furnish Lessor promptly, on request, a true copy of all of the following information pertaining to the leased premises or land unitized therewith, to-wit: all gas purchase contracts if Lessee has approval from gas purchaser, and supplemental agreements or amendments thereto which govern the sale of hydrocarbons produced under the terms of this lease; full, complete and correct records showing volumes produced and values received on gross production; gas balancing statement; gas purchaser statements; daily drilling and operations reports; core analysis, drill stem test, well completion, pressure survey and production analysis reports; all well logs of whatever kind; and copies of any filings made to the Texas Railroad Commission.

32. Upon termination, expiration or surrender of this lease in whole or in part, Lessee shall within thirty (30) days file an appropriate release of lease in the County Records and provide Lessor with a certified copy of same.

33. This lease is expressly made subject to all prior conveyances, requirements, conditions and covenants of record and is without warranty of title.

34. Unless stated otherwise herein or if state statutes provide for a shorter period to make proper payments, all payments due to Lessor for royalties herein shall be delivered to him within ninety (90) days after the last day of the month for which said royalties were due. in the even that said payments are not received within that 90 day time period, 12% compounded annual interest, calculated from the last day of the month for which said royalties were due, shall be paid to Lessor by Lessee. At Lessor' option, all payments received shall be applied first to any outstanding interest due on prior late paid royalties, then to any prior outstanding unpaid royalties and then to any current royalties due. No notations on the remittance statements or provision sin any division order shall amend this provision.

35. Lessee or its assigns shall be responsible for the full and proper payment of Lessors' royalty from the date of first production until final depletion. No statute of limitations or other affirmative defense shall be asserted by Lessee or its assigns to prevent the full and proper payment of Lessors' royalty due herein from the date of first production of any well drilled herein until final depletion of that well.

36. The terms and conditions hereof shall be considered covenants running with the land covered by this lease and shall be binding upon and enure for the benefit of the respective successors and assigns of the parties hereto. Lessor will give notice of any alleged breach and Lessee will have ninety (90) days to cure or rectify. If any of the material terms of this lease shall be violated, this lease shall be subject to judicial forfeiture. Provided, however, that forfeiture shall not be the exclusive remedy, but a suit for damages or specific performances, or both, may be instituted. The prevailing party in any action for breach of the provisions of this lease or breach of duties pursuant to this lease shall be entitle do recover reasonable attorney's fees, expert witness fees, litigation expense and court costs.

37. In the event Lessee pays a lease bonus amount greater than the amount paid to Lessor, for an oil and gas lease, or has paid a lease bonus greater than the amount paid to Lessor in any gas unit in which the leased acreage is included, Lessee agrees to pay the difference between the lease bonus amount already paid per acre and the amount per acre of the greater lease bonus paid to Lessor.

38. Notwithstanding anything to the contrary herein, for purposes of this lease, "Commence operations" shall be defined as the time at which a well is spudded with appropriate equipment on sit to drill to the depth indicated on the drilling permit. For purposes of this lease "complete" or "completion of a well" shall be defined as the time at which the drilling rig is released from the site.

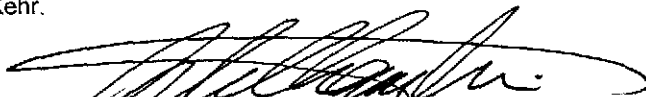
LESSOR:



Robert Kehr

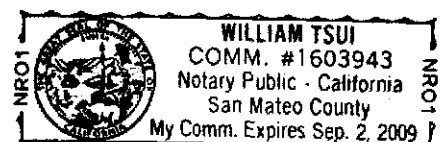
THE STATE OF <sup>California</sup> ~~TEXAS~~ §  
COUNTY OF <sup>San Mateo</sup> ~~EL PASO~~ §

This instrument was acknowledged before me on this 28 <sup>August</sup> day of ~~June~~, 2008,  
By Robert Kehr.

  
Notary Public - State of Texas

After recording return to:

Hollis R. Sullivan, Inc.  
P.O. Box 9289  
White Falls, Texas 76308





HOLLIS R SULLIVAN INC  
PO BOX 9289

WICHITA FALLS TX 76308

Submitter: HOLLIS R SULLIVAN INC

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SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
100 WEST WEATHERFORD  
FORT WORTH, TX 76196-0401

**DO NOT DESTROY**  
**WARNING - THIS IS PART OF THE OFFICIAL RECORD.**

Filed For Registration: 09/17/2008 12:39 PM  
Instrument #: D208360719  
LSE 5 PGS \$28.00

By: \_\_\_\_\_



**D208360719**

**ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE  
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.**

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